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PATRICK COMMUNICATIONS

June 4, 2018

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington DC 20554

Re: FCC Incubator Proposal, MB Docket No. 17-289

Dear Ms. Dortch:

I am writing in support of the FCC's proposed incubator program designed to help new entrants surmount the difficulties of obtaining financing to allow them to purchase and operate successful broadcast stations. My nearly 40 years of station management and ownership as well as 25 years as a leading media broker have convinced me that this rule change is necessary to promote new entrants into the ranks of broadcast owners.

During my career, I have owned and/or operated over 125 radio and television stations. I have managed stations in big markets such as Miami, Dallas, San Diego, San Antonio and Salt Lake City as well as many stations in middle markets including Baton Rouge, LA, Greenville-Spartanburg, SC, Jackson, MS, Youngstown-Canton, OH and Hartford, CT. My small market radio group has included or currently includes stations in Cody and Gillette, WY, Morristown-Dover, NJ, Reading, PA, Clinton, MO and Gallipolis, OH. As a trustee or receiver, I have managed stations in Dayton, Austin, McAllen-Brownsville, Waco, Laredo, Modesto, Fresno, Allentown, Quad Cities and Oxnard-Ventura. I also was Chairman of ION Media Networks which operated 62 television stations at the time.

As a media broker, my firm has sold over $8.0 billion worth of broadcast stations including nearly 600 radio and 160 television transactions. We have helped finance dozens of smaller broadcast companies by raising some $2.0 billion worth of senior and subordinated or equity financing. In short, I know the broadcast transaction and financing market.

I also know the difficulties that many new entrants face when trying to become a broadcast owner. And I know, from first-hand experience, that an incubator program can lead to successful station acquisitions and ownership. I have done this directly by helping an African-American media banker buy into one of my deals in New Jersey. Once he had some ownership and operating experience with those stations for several years, he was able to purchase his own station, WCIN(AM), in Cincinnati to transition into full station ownership. Unfortunately, I have also known dozens of worthy entrants who fail to achieve their vision because of a lack of senior financing and equity support. As a long-time sponsor of and speaker at NABEF's Broadcast Leadership Training program, I am very familiar with dozens of graduates who want to own stations but who are frustrated at not having the financial support to insure their success.

New entrants face a variety of high hurdles that stand in their way to making a successful first station purchase. Because senior lenders are often reluctant to loan to new entrants, these buyers may not have access to this funding option. Many banks do not want to loan to smaller, first-time buyers. They also do not like to loan to parties with an unproven track record of past ownership or senior, multi-station management experience. Finally, they often want prospective owners to purchase stations in three or more markets to spread their risk, rather than having an economic downturn in a single market threaten the loan value.

When I purchased my first stations in 1986, every lender and equity source I contacted, over 30 of them, wanted a minimum of three different markets and for me to prove a minimum of five years of successful, senior broadcast management experience. I was fortunate in that I had been a Chief Operating Officer of a mid-sized radio-television-cable company at that point. I also had the advantage of being able to hire a strong investment banker to help with this initial $24.0 million purchase in three middle-sized Southern markets.

Most new entrants today are focused on a single station purchase, or an AM/FM combination at best, in one market. They are often looking at deals ranging from $1.0-3.0 million. Banks simply do not like these types of loans. The dependence on a single cash flow stream is threatening to them. Equity institutions as well will not look at small single market investments. Many bankers have explained that the work required for these small transactions compared to what the bank will earn from them makes these deals infeasible.

Banks are also very reluctant to loan to new broadcast station owners because of their perceived lack of collateral in the transaction. Banks are generally asset-based lenders. Many are not comfortable with cash-flow based lending and even less so when they cannot have a security interest in a broadcast license subject to renewals. They fear that a license challenge from a competitor or the FCC itself could threaten their collateral.

I have witnessed many deals reviewed by regional and local banks fail because of their reluctance to look at cash-flow as a source of repayment and the lack of what they consider to be "firm" collateral. They would rather co-invest in a larger broadcast credit facility and have significantly less downside risk than take a chance on new entrants. The large national banks simply do not have an interest in financing small, first-time buyers. They have minimums of $25.0 million and focus on multiple market deals. In short, these doors are closed to new broadcast entrants.

Many banks and equity investors are also biased against minority or women entrepreneurs. They often do not take these loan or equity applicants seriously. The applicants may never know the real reason that their applications for a credit facility or equity investments are denied. But there is an element of racism and sexism alive today with some in the financial community.

All this may limit the type of stations available to new entrants with perceived weaker track records. They may not have the choice of the best stations available or the financial resources required to move quickly on an acquisition presented to them. They certainly do not have strong financial partners to help them with a transaction. Incubator partners can generally provide the credentials wanted by sellers to prove the viability of an offer from a new entrant.

Timing is a big issue facing new entrants. It is a horse-and-cart analogy. Many lenders and equity institutions will not engage in any meaningful discussions unless and until the applicant has a station transaction locked up. At the same time, sellers are reluctant to give any aspiring purchaser a lock-up agreement and the time to allow that person to obtain the necessary financing to complete the transaction. Without the financing resources to guarantee a deal, new entrants are often left out of the discussion of properties for sale by brokers and/or sellers who want only proven buyers at the table. Women, minorities and other new entrants often fail at purchases due to their inability to move quickly to capture quality stations.

I personally have noted transactions that have failed in Hartford, CT (3 AM stations) for a Hispanic broadcaster who simply could not obtain his financing commitment in time; in Dayton (2 FMs) for a African American who could not move as quickly to contract as a major radio group owner; to a Hispanic TV station operator in Jackson, MS who could not obtain a full commitment for financing in time; to a Salt Lake City AM/FM combo selling out of receivership to a woman who could not put her financing together quickly enough; to an AM/FM combo in an unrated Michigan market where the buyer was a new entrant and could not convince his community bank to move to a financeable number to support his purchase; and finally to a group of mid-Atlantic radio stations where the seller actively wanted to sell to one or more new entrants. The buyers, however, could not generate enough equity interest in the deal which, in turn, caused the senior lender to lower its support level; as a result, the deal never progressed to a formal asset purchase agreement.

There are dozens of similar stories of not having the financing strength, the ability to commit funds quickly enough to support a transaction or the inability to raise small “angel” equity investments to allow a purchase to proceed. An incubator program would help solve these problems for new entrants.

On the other hand, there are great successes like Riverfront Broadcasting out of South Dakota, where assistance from an established broadcaster helped this group – which now owns over a dozen radio stations – purchase its first stations. Broadcasters such as DuJuan McCoy of Bayou City Broadcasting got his start in part because of a strong equity sponsor who helped him purchase his first television stations. Lyle Banks, a former television general manager, found equity support from LIN Media to purchase television stations in Wichita and Boise. Finally, Kirby Confer, a legendary radio broadcaster in Pennsylvania, has provided equity and loan guarantees to support at least three new entrants to purchase their first stations.

An incubator program that would encourage current broadcasters to help aspiring new entrants purchase and operate their stations would be a good step toward righting the traditional non-inclusion of minorities and women and all new entrants into the broadcast ownership ranks. Many potential owners and classes of owners were not present when FCC broadcast licenses were first distributed. Today, they fight significant obstacles in terms of access to lenders and equity capital that would allow them to participate in the business of broadcast station ownership.

Thank you for your consideration of my comments. I am happy to provide further thoughts and comments about the need for a broadcast incubator program and to meet with the FCC staff or Commissioners to expand on these thoughts.

Sincerely,

*W. Lawrence Patrick*

W. Lawrence Patrick
Managing Partner

Chairman, National Association of
Broadcasters Educational Foundation